



## **Don't maximize value, minimize regret: Simple rules for early opportunity screening in volatile environments**

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Don't maximize value, minimize regret:

Simple rules for early opportunity screening in volatile environments

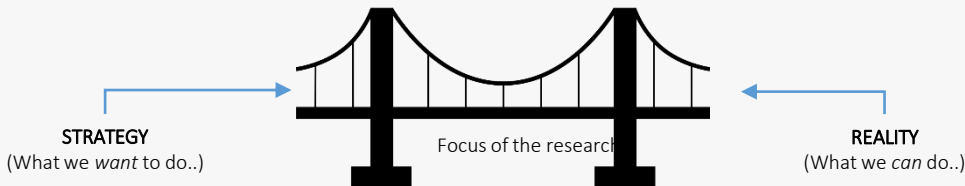
Challenge: Implementing strategy with tied hands

We studied a global leading engineering, design and consultancy firm with headquarters in Denmark. They have an interesting problem: most of what they do is client-based projects.

Therefore, if you are the CEO of this firm and you would like to venture into Artificial Intelligence, then you need to examine whether you can, that is, whether the pipeline of possible client opportunities offer reasonable projects on artificial intelligence, and it may well be that the answer is no, but other interesting opportunities be interesting to pursue. And as we decide on a plan, the opportunities start changing again.

In such context, strategy implementation is as a chess game going crazy. Pieces show up and disappear again, they may change their moving patterns, and you never know when your opponent's queen might pop out of nothing next to your king. Unlike a chess player, skilled managers therefore do not ponder their options at length but instead seize opportunities when they present themselves.

The research is not about engineering firms. We have seen similar issues across several organizations. This case is interesting because it serves as an extreme illustration for the tension between our strategy design - what we want to do, and what it is we can do in strategy implementation.



How to minimize regret?

Porter already said in the 80ies. Strategy is about what NOT to do. Yet it is very hard to focus our attention and identify and reject the distractors. Senior managers in our study used three categories of criteria to reject the worse opportunities: clear-cut, ambiguous and combinatory.



Category 1:  
Clear-cut criteria

The first category, the clear-cut knock out criteria, lead to an immediate rejection of the project opportunity and do not require a qualitative assessment.

Examples:  
Global compliance: if a project is in a location, or for a client, or within a subject are prohibited by 'Global Compliance', the project must be discarded

Category 2:  
Ambiguous criteria

The ambiguous criteria require a qualitative assessment. Interviewees indicated that these criteria have a range; the upper or lower thresholds were not explicitly mentioned and can depend on the business area.

Examples:  
Time to develop the tender: If the project opportunity is discovered late and there is an insufficient time to evaluate the opportunity and produce the tender, the interviewees would neglect the opportunity. However, what constitute 'sufficient time' is ambiguous.

Category 3:  
Combinatory criteria

The third category, the combinatory knock out criteria, involved the combination of at least two criteria to decide whether or not to reject the opportunity.

Examples:  
Need a partner and own capabilities: as an interviewee states: "If we can't find these [Partners in the Design JV], we are out, because we cannot do it alone".

What is your opportunity landscape?

While the literature suggests organizations should identify the best opportunities (e.g. Gavetti, 2012), the managers in our case company followed a different cognitive strategy:  
*Instead of maximizing value (picking the best), they minimized regret (rejecting the worse).*

When should we do what? When contrasting our results with prior literature, we concluded that it depends on your opportunity landscape. The three questions below give a first step to understand your landscape and tailor your approach respectively.

Characterising your opportunity landscape

Do your opportunities disappear quickly if not seized?	No	Yes
Do you have to compete with other organizations (or other areas of your organization) for the opportunities?	No	Yes
Are the opportunities created and shaped by other organizations?	No	Yes



So what and what now?

Bridge the gap by helping others to say NO



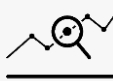
Self-development:  
reflect on your mental checklist



Co-create:  
Help managers to say no

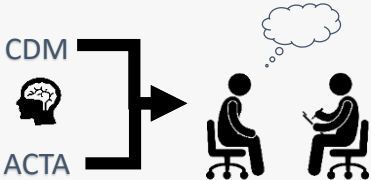


Design: Design strategies for rejection



Evaluate:  
Check whether your managers reject opportunities well

Research Method



For data collection, we used an adapted Applied Cognitive Task Analysis (ACTA) method (Militello & Hutton, 1998) and Critical Decision Method (Hoffmann, 1998). The method allowed us to unravel the experts' cognition, knowledge and skills used in the judgement of new opportunities, even when the experts themselves had difficulties to talk about the choice. The data was complemented by an ethnographic inspired study. We analysed the data with a focus on simple cognitive strategies and identified the simple rules (Bingham and Eisenhardt, 2011)